

**REPORT OF THE AUDIT OF THE
KENTON COUNTY
CLERK**

**For The Year Ended
December 31, 2002**



**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Debra Eucker, Commissioner, Department of Law, Revenue Cabinet

Honorable Richard L. Murgatroyd, Kenton County Judge/Executive

Honorable William Aylor, Kenton County Clerk

Members of the Kenton County Fiscal Court

The enclosed report prepared by Carpenter, Mountjoy & Bressler, PSC, Certified Public Accountants, presents the statement of receipts, disbursements, and excess fees of the County Clerk of Kenton County, Kentucky, for the year ended December 31, 2002.

We engaged Carpenter, Mountjoy & Bressler, PSC to perform the financial audit of this statement. We worked closely with the firm during our report review process; Carpenter, Mountjoy & Bressler, PSC evaluated the Kenton County Clerk's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE KENTON COUNTY CLERK

**For The Year Ended
December 31, 2002**

Carpenter, Mountjoy & Bressler, PSC, has completed the Kenton County Clerk's audit for the year ended 2002. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Fee account balances increased by \$120,325 from the prior calendar year, resulting in a cash surplus of \$328,338 as of December 31, 2002. Revenues increased by \$1,328,115 from the prior year and disbursements increased by \$219,432.

Report Comment:

- Lacks Adequate Segregation Of Duties

Deposits:

The Clerk's deposits were insured and collateralized by bank securities or bonds.

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Carpenter, Mountjoy & Bressler

Certified Public Accountants and Consultants

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Independent Auditor's Report

We have audited the accompanying statement of receipts and disbursements of the County Clerk of Kenton County, Kentucky, and the statement of receipts, disbursements, and fund balances of the County Clerk's operating fund and county fund with the State Treasurer for the year ended December 31, 2002. These financial statements are the responsibility of the County Clerk. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk prepares the financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and fund balances of the County Clerk's operating fund and county fund with the State Treasurer for the year ended December 31, 2002, in conformity with the modified cash basis of accounting.

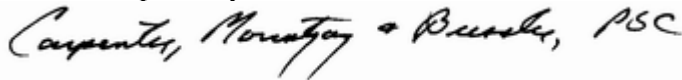
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In accordance with Government Auditing Standards, we have also issued our report dated November 5, 2003, on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in cursive script that reads "Carpenter, Mountjoy & Bressler, PSC".

Carpenter, Mountjoy & Bressler, PSC

Audit fieldwork completed -
November 5, 2003

KENTON COUNTY
 BILL AYLOR, COUNTY CLERK
STATEMENT OF RECEIPTS AND DISBURSEMENTS

For The Year Ended December 31, 2002

Receipts

State Fees For Services		\$	63,661
Fiscal Court			29,624
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	2,630,611	
Usage Tax		13,574,108	
Tangible Personal Property Tax		10,271,053	
Licenses-			
Marriage		49,253	
Occupational		7,026	
City Stickers		173,946	
Deed Transfer Tax		520,158	
Delinquent Taxes		<u>1,650,822</u>	28,876,977
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts	\$	74,761	
Real Estate Mortgages		481,029	
Chattel Mortgages and Financing Statements		293,437	
Powers of Attorney		5,274	
All Other Recordings		201,669	
Charges for Other Services-			
Candidate Filing Fees		8,600	
Copywork		<u>30,032</u>	1,094,802
Other:			
Recycling of Old Plates	\$	933	
Postage		91,748	
Delinquent Tax Redemptions to State		53,206	
Recovery of Bad Checks		45,945	
Miscellaneous		<u>557</u>	192,389
Interest Earned			<u>10,722</u>
Total Receipts		\$	30,268,175

The accompanying notes are an integral part of the financial statements.

KENTON COUNTY
 BILL AYLOR, COUNTY CLERK
 STATEMENT OF RECEIPTS AND DISBURSEMENTS
 For The Year Ended December 31, 2002
 (Continued)

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 1,921,560

Usage Tax 13,195,270

Tangible Personal Property Tax 3,358,588

Licenses, Taxes, and Fees-

Delinquent Tax 215,508

Legal Process Tax 108,896

Candidate Filing Fees 4,440 \$ 18,804,262

Payments to Fiscal Court:

Tangible Personal Property Tax \$ 1,057,802

Delinquent Tax 158,383

Deed Transfer Tax 494,149

Occupational Licenses 5,731 1,716,065

Payments to Other Districts:

Tangible Personal Property Tax \$ 5,453,864

Delinquent Tax 880,366 6,334,230

Payments to Sheriff

10,470

Payments to County Attorney

252,432

Refunds \$ 32,720

Delinquent Tax Redemptions to State 53,206

City Stickers 155,408

Miscellaneous 45 241,379

Total Disbursements \$ 27,358,838

Net Receipts \$ 2,909,337

Payments to State Treasurer:

75% Operating Fund \$ 2,227,202

25% County Fund 682,135 2,909,337

Balance Due at Completion of Audit \$ 0

The accompanying notes are an integral part of the financial statements.

KENTON COUNTY
 BILL AYLOR, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
FUND BALANCES OF THE COUNTY CLERK'S OPERATING
FUND AND COUNTY FUND WITH THE STATE TREASURER

For The Year Ended December 31, 2002

	75% Operating Fund	25% County Fund	Totals
Fund Balance - January 1, 2002	\$ 208,013	\$	\$ 208,013
<u>Receipts</u>			
Fees Paid to State - Operating Funds (75%)	2,227,203		2,227,203
Fees Paid to State - County Funds (25%)		682,135	682,135
Total Funds Available	<u>\$ 2,435,216</u>	<u>\$ 682,135</u>	<u>\$ 3,117,351</u>
<u>Disbursements</u>			
Kenton County Fiscal Court	\$	\$ 682,135	\$ 682,135
Personal Services-			
County Clerk's Salary	84,494		84,494
County Clerk's Expense	3,600		3,600
Deputies' Salaries	1,214,012		1,214,012
Employee Benefits-			
Employer's Share Social Security	93,398		93,398
Employer's Share Retirement	78,765		78,765
Employer's Paid Health Insurance	312,524		312,524
Contracted Services-			
Microfilming	19,414		19,414
Parking	13,503		13,503
Custodial Services	1,360		1,360
Materials and Supplies-			
Office Supplies	55,578		55,578
Delivery Services	3,211		3,211
Telephone	28,791		28,791
Maintenance	34,251		34,251
Forms and Printing	18,847		18,847

The accompanying notes are an integral part of the financial statements.

KENTON COUNTY
 BILL AYLOR, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND
 BALANCES OF THE COUNTY CLERK'S OPERATING FUND
 AND COUNTY FUND WITH THE STATE TREASURER
 For The Year Ended December 31, 2002
 (Continued)

	75% Operating Fund	25% County Fund	Totals
<u>Disbursements (Continued)</u>			
Other Charges-			
Conventions and Travel	\$ 1,400	\$	\$ 1,400
Dues	6,900		6,900
Postage	23,878		23,878
Post Office Rental	350		350
Unemployment Insurance	1,053		1,053
Advertising	213		213
Computer Services and Equipment	54,018		54,018
General Liability/Omissions and Errors Insurance	26,672		26,672
Capital Outlay-			
Office Equipment	30,646		30,646
Total Disbursements	<u>\$ 2,106,878</u>	<u>\$ 682,135</u>	<u>\$ 2,789,013</u>
Fund Balance - December 31, 2002	<u>\$ 328,338</u>	<u>\$ 0</u>	<u>\$ 328,338</u>

The accompanying notes are an integral part of the financial statements.

KENTON COUNTY
BILL AYLLOR, COUNTY CLERK
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

A fee official in counties with a population over 70,000 has two funds established with the state for the deposit of fees collected. Seventy-five percent (75%) of the fees collected is deposited in a County Clerk's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected is deposited to the county fiscal court fund and periodically paid to the county government. These funds are closed at the end of each four-year term by paying the balances to the respective county government.

B. Basis of Accounting

The financial statements have been prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2002.

The Attorney General issued a letter which stated that some receipts of the fee official offices could be considered reimbursed expenses. All reimbursed expenses are receipted in the 75 percent fund.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

KENTON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2002
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent for the first six months and 6.34 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement System's annual financial report which is a matter of public record.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 64.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2002, the County Clerk's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the County Clerk's agent in the County Clerk's name, or provided surety bonds which named the County Clerk as beneficiary/obligee on the bonds.

COMMENT AND RECOMMENDATION

KENTON COUNTY
BILL AYLLOR, COUNTY CLERK
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2002

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

Lacks Adequate Segregation Of Duties

We noted the lack of an adequate segregation of duties for the internal control structure and its operation that in our judgment is a reportable condition and a material weakness under standards established by the American Instituted of Certified Public Accountants. Due to the entity's diversity of official operations and budget restrictions, the official has limited options for establishing an adequate segregation of duties. During the audit, it was noted that the bookkeeper both deposits cash for the lien department and reconciles the lien department accounts. Management has considered and rejected additional cost when setting budget limits on spending for salaries and therefore accepts the degree of risk for a lack of an adequate segregation of duties as a reportable condition. We recommend that the County Clerk separate the cash safekeeping function from the cash reconciliation function.

County Clerk's Response:

No response given.

PRIOR YEAR:

Lacks Adequate Segregation Of Duties

This comment has not been resolved and is repeated in current audit.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the Kenton County Clerk for the year ended December 31, 2002, and have issued our report thereon dated November 5, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Kenton County Clerk's financial statements for the year ended December 31, 2002, are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grants. noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Kenton County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

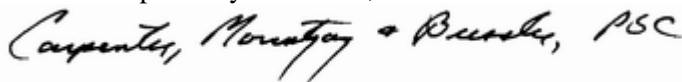
Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in cursive script that reads "Carpenter, Mountjoy & Bressler, PSC".

Carpenter, Mountjoy & Bressler, PSC

Audit fieldwork completed -
November 5, 2003

